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RUEHMN/AMEMBASSY MONTEVIDEO 2398  
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RUEHRG/AMCONSUL RECIFE 3718  
RUEHRI/AMCONSUL RIO DE JANEIRO 8259  
RUEATRS/DEPT OF TREASURY WASHDC  
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RUCPDO/DEPT OF COMMERCE WASHINGTON DC

C O N F I D E N T I A L SECTION 01 OF 03 SAO PAULO 000701

SIPDIS

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STATE FOR WHA/FO, WHA/BSC, WHA/EPSC, INR  
STATE PASS USTR FOR KATE DUCKWORTH  
NSC FOR TOMASULO  
TREASURY FOR JHOEK

E.O. 12958: DECL: 08/15/2017  
TAGS: [PGOV](#) [PINR](#) [ECON](#) [EFIN](#) [BR](#)  
SUBJECT: FHC PREDICTS NO REFORMS ON LULA'S WATCH, PSDB/DEM  
VICTORY IN SAO PAULO MAYOR'S RACE

REF: A. SAO PAULO 560

[1](#)B. SAO PAULO 295 AND PREVIOUS

Classified By: CONSUL GENERAL THOMAS J. WHITE. REASON 1.4(D)

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SUMMARY  
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[1](#)1. (C) During an August 14 meeting with the Consul General (CG), former President Fernando Henrique Cardoso (FHC) proffered his views on Lula's inability to pass economic reforms, whether or not sub-prime lending in the U.S. and Europe could have an impact on the Brazilian economy, the state of play in Sao Paulo local politics, and his thoughts on the 2010 presidential election. FHC is optimistic about his party's chances in Sao Paulo's 2008 Mayoral election. End Summary.

[1](#)2. (SBU) Fernando Henrique Cardoso (FHC) President of Brazil, 1995-2002) met with the CG August 14 while his visa was being processed. (He was renewing his J visa to return to teach at Brown University where he serves as a Professor at Large.) FHC expressed some concern about falling financial markets and the high level of risk in sub-prime lending. In addition, he indicated that the lack of regulation and supervision of US hedge funds could be an additional area for concern. While he stated that the current crisis appeared to be affecting the US and European markets, he did not believe there was any immediate cause for alarm in the Brazilian economy.

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NO REFORMS UNDER LULA  
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[1](#)3. (C) The CG asked whether the Government of Brazil (GoB) can or will enact political or economic reforms of a fundamental nature. FHC stated firmly that the Lula government lacked the political will (in addition to the votes in Congress), to push for any fundamental changes of a

controversial nature. He further opined that it will be difficult enough to renew two critical pieces of fiscal legislation: the De-earmarking of Federal Revenues (DRU), which frees up some dedicated resources for discretionary government spending; and the Provisional Contribution on Financial Movements (CPMF). Because they are revenue bills, both require a three-fifths vote (308 votes out of 513 members in the Chamber of Deputies, and 49 of 81 Senators) to pass. FHC predicts that the DRU will pass, but the CPMF has become controversial and will require considerable negotiation in order to pass.

¶4. (C) First enacted in 1997, the CPMF is a levy of 0.38 percent on all financial transactions. It expires December 31, and Congress is considering a bill to renew it through 2011. As recently as a few months ago, the Lula administration was confident of its renewal and even considered a proposal to increase it to 0.8 percent. However, two opposition parties, the Democratic Party (DEM) and the Popular Socialist Party (PPS), are now adamantly calling for the CPMF's abolition. The Social Democracy Party of Brazil (PSDB), which FHC still serves as Honorary President, has taken a middle position, favoring elimination but willing to support re-authorization if the tax is reduced to 0.2 percent and if the GoB is required to share some of the revenues with states and municipalities - a provision the Government coalition strongly opposes. Paulo Skaf, President of the influential Sao Paulo State Federation of Industries (FIESP), told the Ambassador and CG last Friday that he and FIESP were disappointed that the PSDB is so soft on CPMF, which many in the business community oppose. FHC expressed the view that it is impossible to eliminate the CPMF, despite popular sentiment and business community lobbying, because the Government has become dependent on the revenues it

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generates. These revenues were estimated at approximately USD 15 billion in 2006.

¶5. (C) Tax reform, FHC noted, is difficult under the best of circumstances. He asserted that Lula is not interested in any reforms, but only in maintaining his own popularity. There is some hope that the administration will move forward on much-needed infrastructure improvements, but this is impeded by a lack of administrative capacity. (Comment: The administration's Growth Acceleration Program (PAC), the flagship economic initiative of Lula's second term, is moving forward slowly. One impediment is that recent Federal Police investigations have uncovered alleged cozy and potentially corrupt relationships between major construction companies and government officials. These relationships have undermined the public's confidence in the GoB's contracting practices. End Comment.)

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LOCAL POLITICS  
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¶6. (SBU) On the issue of local politics and the 2008 municipal elections, FHC was buoyant. Polls published August 12 by Datafolha show Geraldo Alckmin (PSDB former Sao Paulo Governor and unsuccessful 2006 presidential candidate) with a solid lead over other likely contenders under a range of likely scenarios. Minister of Tourism Marta Suplicy (Sao Paulo Mayor from 2001-2004 and a leader in President Lula's Workers' Party (PT)), announced August 13 that she does not intend to run for Mayor, though she holds out the possibility of running for Governor in 2010. Suplicy said her decision was not dictated by the polls, which she considered very good, but by her desire to stay on in the challenging job of Minister of Tourism. (Comment: Some consider that Suplicy may have damaged her chances for elective office in June when, per ref A, she publicly exhorted Brazilians affected by the country's aviation crisis to relax and enjoy. End Comment.) PT insiders have told us that if Suplicy does not run, the party has other possible

candidates. Some of these include: Chamber of Deputies President Arlindo Chinaglia; Education Minister Fernando Haddad; and Senator Aloizio Mercadante. It is generally agreed that these candidates could make a strong showing, but would have a difficult time defeating Alckmin.

¶7. (SBU) FHC did state that because incumbent Mayor Gilberto Kassab (DEM) has been steadily improving in the polls, if he proves to be too strong a candidate, Alckmin may also withdraw from the race and instead run for Governor in 2010. (Note: The PSDB and DEM have a strong alliance in Sao Paulo state and are not expected to run competing candidates. End Note.) Alckmin will not likely try to gain the PSDB's 2010 presidential nomination, FHC said, because he lacks a national profile. In the second round of the 2006 election, Lula defeated Alckmin in populous, impoverished northeastern Brazil by 77-23 percent. Only two likely presidential candidates, in FHC's view, are strong in the northeast: Sao Paulo Governor Jose Serra (PSDB) and Ciro Gomes, a Socialist Party (PSB) Federal Deputy from Ceara who served as Minister of National Integration during Lula's first term.

¶8. (C) &Whichever of the two ends up running for Mayor ) Alckmin or Kassab ) will win, FHC said. He was further quoted in the press to the effect that &our adversaries in Sao Paulo ) a reference to the PT ) &don't have anything. FHC added that while Governor Serra would prefer that Kassab be the candidate, he will not oppose Alckmin. On the expected competition within his own party between Serra and Minas Gerais Governor Aécio Neves for the 2010 presidential nomination, FHC predicted that the two will reach some sort of understanding, but not until much closer to the election.

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COMMENT

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¶9. (C) FHC, who turned 76 in June, remains active not only in his party, but in national politics and the international scene as well. His description of his upcoming travels to the U.S., Europe, and Africa are more ambitious than would be expected of an elder statesman who has retired to a life of academia. While not everyone in the PSDB appreciates his speaking out as frequently as he does, especially since he is sometimes quite critical of the party's leaders and elected officials, few of them would dare to ignore him. End Comment.

¶10. (U) This cable was cleared by Embassy Brasilia.  
WHITE